The Cat-And-Mouse Game of Aid and Debt Relief

Summary: At the G8 meeting in July 2009 at L'Aquila, Italy, African countries were promised massive debt relief and $20 billion of aid to ensure food security and agricultural development. This paper, written in September 2009, predicted that nothing will happen; these are empty promises to delude the leaders and people of Africa. "Development aid", when applied to the reality on the ground, is a contradiction in terms

++++++++++++++++++++++++++++++

The Summit of the world`s richest and most powerful Northern countries that constitute the G8 took place in L'Aquila, Italy from 8 to 10 July 2009. In attendance also were the Heads of State and Government of a host of other minor or lesser countries, some of whom were admitted to the inner sanctum of the G8 summit, and some simply hovered around in the corridors at the call of the G8 waiting to be "invited" for "breakfast meetings" or press conferences or "bilaterals". At one of these "breakfast meetings" the G8 broadened their participants to take in the African countries of Algeria, Angola, Egypt, Ethiopia, Libya, Nigeria, Senegal and South Africa as well as the IEA, World Bank, IMF, ILO, OECD, WTO and United Nations and the African Union Commission's representatives. At this meeting the G8 graciously agreed to increase aid to Africa for food security and agricultural development from an earlier figure of $15 billion to $20 billion.

A summary judgement of the G8 Summit (the first for President Barrack Obama) must be that against the multiple crises the world is currently facing, the outcome of the discussions was a whimper, a puny response to an acknowledgement of the magnitude of the challenge. It is not surprising, then, that the world media largely hyped up the promise of $20 billion L'Aquila Initiative on Global Food Safety for Africa, for there was very little else that was on show.

So the question is: how significant is the promise of $20 billion?

To properly appreciate the significance of the $20 billion envelope, let us put the facts and a proper perspective to it.

First, it is just a promise. Promises have been known to remain just that – promises.

Second, if past experience is any guide, the money is not likely to be "new" money, but recycled from previous unfulfilled commitments.

Thirdly, the $20 billion package is for three years; about $7 billion per year. This is to be shared between 53 African countries, an average of about $ 132 million per country.

Compare this with the following:

- Between 1990 and 2003 African countries had received $540 billion in loans and had paid back $580 billion in debt and service charges ($40 billion more than what they had received), and yet by the end of 2003 $330 billion debt had still remained to pay.

- In 2003 alone African countries had paid over $25 billion in debt servicing while 2.3 million lives were lost lives because of HIV/Aids. Many of them spent more per capita on debt servicing than on health care. For example, in 2002 the Democratic Republic of Congo - where 1.1 million people live with HIV/AIDS -- spent more than four dollars on external debt servicing for every dollar spent on health care. And in the same year Angola had paid out $106 per capita in debt servicing compared to $ 38 per capita on health.

Compare this also with the "promise" made by G8 at the 31st G8 Summit of July 2005 at Gleneagles. The issue that got most media hype on that occasion was debt cancellation -- to write off the entire US$40 billion debt owed by 18 Highly Indebted Poor Countries (HIPC) to the World Bank (WB), the International Monetary Fund (IMF) and the African Development Bank (ADB). Four years down the line, a more sober assessment exposes the scenario of "business as usual". What are the facts about the much-touted debt cancellation and the "road to recovery" for Africa?

- The US$40 billion debt write-off applied only to 18 HIPCs. How were they identified, and who selected them? Africa itself had no say in this. They were selected by the "donor community", not by any agency of Africa, such as the African Union.

- On what criteria were they selected? These 18 countries were identified as those that had faithfully followed the IMF/WB strictures on Structural Adjustment Programmes (SAP - policy prescriptions that demanded pro-cyclical, deflationary, measures from these countries). The G8 stated that 20 more countries, with an additional US$15 billion in debt, would be eligible for debt relief on condition that they met targets on fighting corruption and continued to fulfill SAP conditionalities and provided they eliminated impediments to foreign private investments in their countries.

- Since the debt cancellation only referred to multilateral institutions, the crippling bilateral official and corporate debts of Africa still remained intact.

So what did the G8 achieve at the Gleneagles summit?

As far as Africa is concerned, very little. In fact, it was "business worse than usual". Why? Because of two reasons:

- The debt write-off managed to tone down, to neutralise, the pressure from African civil society on their governments to unilaterally repudiate those debts that were illegitimate or odious – a technical concept recognised in international legal practice.

- Furthermore, it triggered fresh false illusions in and about Africa. Some people concluded that this was going to be the turning point for Africa. With debts written off, Africa was expected to now, finally, get down to using its resources to develop the economy and look after the welfare of the African people without the crippling debt burden.

The reality is that Africa is worse off today than in 2005. Currently much of the blame is put on the financial crisis. In fact, the embedded structured economic relations between the industrial North and Africa is the root cause of Africa`s enduring poverty. Through these structures there is a ceaseless transfer of net resources from Africa to the North, and this predates the financial crisis.

The neutralising of pressure from African civil society was well calculated. Taking advantage of the easing of this pressure, the G8 creditor countries now put pressure on African governments to pay their debts and to conform to IMF/WB conditionalities. For example, in Nigeria, which is not eligible for debt relief under the HIPC Initiative, the civil society organisations were putting pressure on their government to unilaterally cancel all odious external debts, and the Nigerian parliament was about to move to repudiate these debts. The Paris Club of rich country creditors called an emergency meeting in September 2005, and managed to make a deal with the Nigerian government. In the deal, which covered $30 billion in debt, Nigeria agreed to pay 40% of the total, or $12 billion. Nigeria paid the $12 billion, which it need not have if the Parliament had carried the day. The G8 would have probably imposed sanctions on Nigeria, but in my view that would have been totally ineffective. In fact, the West would have lost out both politically and, given the option to go to China, also financially and commercially.

Out of the Gleneagles promise of rainbow, what Africa lost the G8, especially Europe, gained. Above all, from a European perspective the governments were able to placate their own civil society members that had mounted pressure since the start of the Jubilee Campaign in 2000 “to do something” to alleviate the sufferings of the African people. Their champion, Bono, is complaining today about lack of follow-up to the promises of Gleneagles, but at the time he was a media hero.

It might be argued that at least the 18 HIPCs got their multilateral debt cancelled. African should be grateful for this. This is a false argument. Why? Because:

These countries had already paid for these debts many times over not only in financial terms but also in terms of transferring real resources (minerals, agricultural products) as well as in terms of profits by Western corporations as a result of reckless trade and capital liberalisation policies pushed through as conditionalities of the so-called “development aid” .

And secondly, debts are not something that are always expected to be paid off in certain kinds of transactions, especially when the creditors have already secured most of what they wish to get out of their debtors. In the United States, for instance, the Federal Reserve Bank (a bank owned by a group of private commercial bankers) provides credit to the government (through bonds, for example), and as long as the government pays the interest, the premium is simply rolled over and over and never paid. By 2007 the Federal debt stood at $8.679 Trillion which is never expected to be paid back; the interest the banks earn is more than enough to satisfy their shareholders. In the same way, the IMF and the World Bank not only secured the interest on the loans given to the HIPC countries, but as argued earlier, they also secured huge benefits for their own principals – mainly commercial banks and corporations. So "writing off" of US$40 billion debt owed by 18 HIPC countries in Africa was not such a big deal after all.

What do we learn from this experience? There are two lessons to learn: One, do take the G8 seriously, but not in terms of what they promise to "give" to Africa, but in terms of what they intend to "take" out of Africa. Second, Let us not hitch the African wagon to the G8 engine. What looks like an act of benevolence and charity is, in reality, an act of creating subtle forms of debts by which to tie the future of Africa to their single-minded pursuit of capturing Africa`s resources and Africa`s markets. "Development aid" is, when applied to the reality on the ground, a contradiction in terms.

+++

Yash Tandon ©
Executive Director,
South Centre, Geneva
11 July, 2009